

Maintaining Competition in Defense Sustainment

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**Lou Kratz
Vice President
Logistics & Sustainment
Corporate Engineering & Technology**

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Agenda

- **Current Market Dynamics**
- **Emerging Trends**
- **Recent Competitive Examples**
- **Potential Next Steps**

Current Market Dynamics

- **Significant Increase in DoD Logistics Spend Since 2001**
 - 10% annual growth
 - FY08 spend estimated at \$80B
 - 4% projected growth across FYDP
- **80% of Spend Related to Defense System Sustainment**
- **Approximately 20,000 Suppliers**
- **45% of Aviation Supply Spend Competitively Awarded**
- **80% of Land/Maritime Supply Spend Competitively Awarded**
- **Greatest “Degree” of Competition Attained for Distinct Functions or Products**
 - Supply
 - Maintenance
 - Transportation Services
 - Combat Support



Emerging Trends

- **Organic Depots Pulling Work Back In-House**
- **DLA Moving to Prime Vendor Supply Chain Models**
- **Military Services Continuing to Implement Performance Based Logistics**
- **USTRANSCOM Implementing Defense Transportation Coordination Initiative**
- **Contractor Augmentation Programs Moving to Multiple Awards**
- **FY08 NDAA Requirements for Multiple Awards on IDIQ Contracts**



Recent Competitive Examples



Product Support
Integration

Depot Maintenance

Prime Vendor

T-45 Case Study



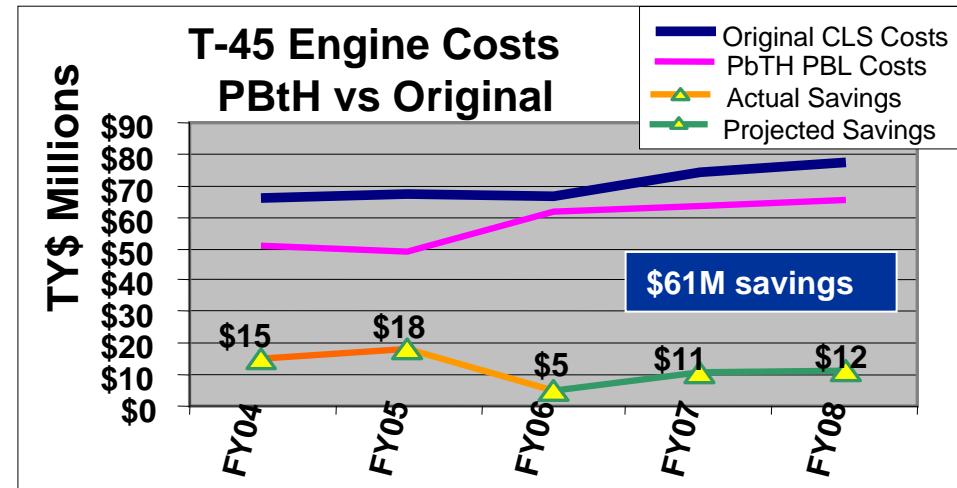
Aircraft

- Originally Produced by Boeing Beginning in Mid 1970's
- PBL Competitively Awarded in July 2003 to Vertex Aerospace
 - 200 aircraft
 - \$450M total value
 - 5 year: 1 Year & 4 one year options

T-45 Trainer

Propulsion

- Rolls-Royce \$65M Sole Source Power by the Hour Contract to Support T-45 Training Aircraft.
- Government & Contractor Goals Aligned
 - Increased Time on Wing
 - Increased Reliability
- Engine Availability Contractual Requirements
 - FY04 = 80% of Engine Inventory
 - FY05 – FY08 = 85% of Engine Inventory
- MTBF Contract Metric is 580-640 Hours MTBF;
 - Currently Over 900 Hours
 - Plans to Approach 2000 Hours



A-10 Case Study



- **Competitively Awarded Product Support Integrator (PSI)**
- **Competitively Awarded Re-Winging in 2007**
 - Different than PSI
- **PSI Role Re-Competed in 2008**
 - Subject to requirement of NDAA
- **“Jury” Still Out on Results**

C-130 Case Study



- **Robust Industrial Capability for Depot Maintenance**
 - WR-ALC; Ogden ALC;
 - Lockheed Martin; L3; Temco
- **Industry PDM Competitively Awarded**
- **C-130 AMP Competitively Awarded**
- **Government Workload Based on CORE**

KC-135 Case Study



- In FY2000, 32% of Fleet Unavailable Due to Depot Maintenance
- Robust Industrial Capability for KC-135 Depot Maintenance
 - OK ALC
 - Boeing
- Government Workload Determined by CORE
- Industrial Work Competitively Awarded
- Reduced Maintenance days by 19%, Cost by 15% per Aircraft

Way Forward

- **Foster Continued Competition for Depot Maintenance of Legacy Systems**
- **Continue 5+5 Strategy on System Level PBLs**
 - Ensure DoD has access to all appropriate data
 - Ensure appropriate “off ramps”
- **Continue Competitively Solicitation of Prime Vendors**
- **Assemble Competitive Sustainment Data to Enable More Robust Assessment**

Back Up

T-45 Trainer

- Primary User: **US Navy**
- Manufacturer: **Boeing / BAE Systems**
- T-45 Goshawk aircraft:
 - Service life of considerably more than 14,400 required flight hours
 - Latest upgrade: T-45C (digital cockpit)
 - 2,100 aviators have earned their wings in the T-45
- T-45 Training System (T45TS):
 - Training task accomplished with 25% fewer flying hours, using 42% fewer aircraft and 46% fewer personnel
 - Enabled Navy to reduce student flight time by 13% and average training time by 17 weeks per student pilot
 - Navy averaging more than 60 hours per month per airframe – one of the highest utilization rates in the world
- 7/29/03: Vertex Aerospace (formerly Raytheon Aerospace) awarded 1-year, \$85.7M contract to provide Contract Logistics Support for 200 T-45 aircrafts. Total contract value: \$450M (four 1-year option periods)
- 9/26/07: L3 Communications Vertex Aerospace awarded \$96M contract for Logistics Support for approx 189 T-45 Training Systems. Expected completion is Sept 2008.
- Boeing recently rolled out its 207th T-45 Goshawk aircraft (with a total of 221 currently under contract) with the Navy.
 - Improvements: Better low-speed performance, safer taxiing on crowded flight decks, better pitch control

C-130 Maintenance

- **Primary Users: USAF, USMC**
- **Manufacturer: Lockheed Martin**
- 09/07: Lockheed Martin C-130J Long Term Sustainment Program received top honors for Outstanding Achievement in Military Logistics Strategy from the Institute for Defense and Government Advancement (IDGA)
 - Recognized as a leading, visionary effort for its strategic PBL Public Private Partnership
- Boeing offering C-130 Total Life Extension Program (part of Aircraft Modernization Program) – extends service life of aircraft up to 30 years, also reduces total ownership cost significantly. Provides upgrades and 1/7th the cost of a new aircraft (\$10 – \$15M vs. \$65 – \$75M)
 - Boeing C-130 AMP – reduce total cost of ownership. First flight Sept 2006
 - “Clearly, C-130 AMP is a solid program, has excellent leadership, and is something we all need to continue to support.” --Gen Handy
 - “The C-130 AMP is the only viable solution to our cockpit modernization, navigation safety, and Global Air Traffic Management requirements.” -- Gen Brown
- C-130 PDM: Began July 2001, 80% improvement in 2003 vs. 2002:

Fiscal Year	A/C Prod Goal	Goal % Change	A/C Production	Production % Change	Notes
2001	38	---	32	---	
2002	44	15.8%	38	18.8%	Full lean implementation begun in April; ALC level turbulence adds to difficulty
2003	48	9.1%	46	21.1%	First full year of lean, \$2M overall savings
2004	54/64	12.5% / 33.3%	53	15.2%	Production requirement increased after beginning of first fiscal year

KC-135 Maintenance

- **Primary Customer: US Air Force**
- **Manufacturer: Boeing**
- 2/29/08: EADS/Northrop Grumman wins contract over Boeing to replace the KC-135 fleet (Initial contract valued at \$35B – 179 planes to be delivered over the next 15 years). Should be ready to enter the inventory by 2013. New tanker will be KC-45A
 - Northrop tanker will provide significantly greater air refueling capabilities – best value
- 9/11/07: Boeing/Pemco win \$1.1B 10-year KC-135 maintenance contract – to continue providing Programmed Depot Maintenance (PDM) on 200+ aircraft (Tinker AFB)
 - Typically PDM required for KC-135 every 5 years
 - Boeing KC-135 PDM program has solid track record - reduced the number of days aircraft is out of service for maintenance by 19%, cut costs by 15% per aircraft
- 9/8/06: KC-135 Programmed Depot Maintenance (PDM) program won 2006 Support Systems Lean Excellence Award
- By 2000, 32% of KC-135 fleet (29% of the entire USAF refueling fleet) was unavailable due to depot level maintenance. This reduced the refueling capability to the warfighter and caused a backlog at depot facilities, increasing the average number of days in depot level maintenance to over 400 (LT. GENERAL ZETTLER DEPUTY CHIEF OF STAFF FOR INSTALLATIONS AND LOGISTICS, June 2003)